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No. 92-1400

IN THE
Supreme Court of the United States
OCTOBER TERM, 1992

THE QUAKER OATS COMPANY,

Petitioner,

v.

SANDS, TAYLOR & WOOD COMPANY

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Seventh Circuit

REPLY BRIEF FOR PETITIONER

William E. Wallace III
Counsel of Record
Jerrold J. Ganzfried
Joseph P. Lavelle
HOWREY & SIMON
1299 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 783-0800

Attorneys for Petitioner
The Quaker Oats Company

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REPLY BRIEF FOR PETITIONER

With respect to each of the questions presented, the petition demonstrates that other courts of appeals would have reached a result that differs from the judgment below. That is the quintessence of a conflict among the circuits. Moreover, the conflicts involve important, recurring questions of federal trademark law with enormous practical consequences and policy ramifications. Respondent's brief in opposition relies on

two principal tactics in an effort to avoid this Court's review:

- distorting the record, for example, by relying on findings by the district court that the Seventh Circuit expressly rejected; and

- ignoring decisions cited in the petition that conflict with the decision below.

These tactics confirm that the judgment of the Seventh Circuit in this case cannot be supported on its stated terms and that the growing doctrinal split among the circuits warrants this Court's prompt attention.

1. There is no merit to respondent's contention that the petition raises issues of fact. Br. in Opp. 5-8. To the contrary, the petition addresses only the legal standards employed by the court of appeals, as it is those standards that conflict with decisions of other circuits. The point is that other courts of appeals interpret the Lanham Act in ways that preclude the disposition of the court below. Far from challenging any factual determinations, petitioner poses strictly legal issues for this Court to adjudicate on the basis of the facts that informed the decision below.[1]

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[1] Conversely, it is respondent that retreats from the facts set forth in the Seventh Circuit opinion by repeatedly referring to district court findings that the court of appeals expressly rejected or held to be irrelevant to its analysis of the law. For example, respondent recites (Br. in Opp. 3, 6) efforts it allegedly undertook to use the mark during the period when the mark was owned by Karp (December 1981-

(continued...)

2. There is no merit to respondent's denial of the existence of a conflict on the abandonment issue: whether events subsequent to the Lanham Act's two-year statutory presumption may resuscitate trademark rights where the owner admittedly had no intention to resume use and the mark had not been used in a relevant market for more than two years? The Seventh Circuit answered that question in the affirmative. In contrast, the Federal Circuit held in *Cerveceria Centroamericano, S.A. v. Cerreceria India, Inc.*, 892 F.2d 1021 (Fed. Cir. 1989), that subsequent events cannot revive an abandoned mark. Respondent ignores that conflicting case. *See also AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531 (11th Cir. 1986), *cert. denied*, 481 U.S. 1041 (1987) (holding that prior owner's non-use preceding assignment of mark is dispositive of abandonment issue, a conflicting rule of law respondent also ignores).

Instead of confronting this split in the circuits, respondent distorts the record to deflect attention from flaws that, in other circuits, would require a finding of abandonment as a matter of law. Central to respondent's theory is the contention that within two years after the last use of the mark on a beverage, the owner of the mark evidenced its intent to resume use. Taking the record as set forth in the opinion below, and not as respondent would revise it, four critical facts are clear:

- the last use of THIRST-AID on a beverage was the Pet test-marketing,

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[1] (...continued)
September 1984), but the Seventh Circuit expressly held that the district court's reliance on such evidence was error. Pet. App. 18a.

which ended no later than November 1980 (Pet. App. 3a-4a, 72a);[2]

- Karp owned the mark from December 1981 through the commencement of Quaker's advertising campaign for GATORADE in May 1984 (Pet. App. at 4a-5a, 17a-18a);

- when Karp acquired the mark it had no intent to use THIRST-AID on a beverage (*id.* at 18a);

- the earliest evidence offered to show an intent by Karp to resume use of the mark was in September 1983 -- almost three years after the last use on a beverage (*id.* at 18a, 62a, 74a n.5).

Accordingly, the decision below is premised upon a gap of three years between the last use and any evidence of an intent by the owner of the mark to resume use. The reliance solely on subsequent events to revive an unused, abandoned mark is precisely the aspect of the decision below that conflicts with other courts of appeals. Pet. 13-15.

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[2] Rather than refer to the last use by Pet in late 1980, respondent notes that Pet's license expired in June 1981 (Br. in Opp. 2-3). Although last use is the relevant legal benchmark, the abandonment issue remains the same even under respondent's formulation since more than two years of non-use followed with no intent by the owner of the mark to resume use.

Preferring to ignore this conflict -- and the factual deficiency in its proof -- respondent focuses on evidence designed to show that *it* rather than Karp had an intent to resume use before the Lanham Act's two-year period resulted in abandonment.[3] For this, respondent relies exclusively on the district court opinion (*see* Br. in Opp. 3, citing Pet. App. 62a, 63a). But, the court of appeals expressly held that "the district court erred in focusing on the intent of [respondent] rather than of Karp during the three years that Karp owned the marks." Pet. App. 18a.

Recognition that Karp, and not respondent, owned the mark at the relevant time also defeats respondent's tortured denial of a conflict. For example, the only basis upon which respondent attempts to distinguish *Hiland Potato Chip Co. v. Culbro Snack Foods, Inc.*, 720 F.2d 981 (8th Cir. 1983), is that the defendant in that case "relied" on the mark owner's statement of abandonment. Here, too, as the court of appeals recited, Quaker contacted the mark owner, Karp, prior to airing the GATORADE advertisements and learned that Karp was not using the mark on any retail product. Pet. App. 5a. Far from being distinguishable, *Hiland* confirms that other courts of

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[3] Br. in Opp. 3, contending that respondent and Karp "pursued use [of the mark] in the beverage industry," but citing evidence only of respondent's intent prior to 1983 and noting no such intent by Karp (the owner of the mark) until "[s]tarting in September 1983." *See id.* at 6 (respondent argues that "both Sands and Karp undertook to further develop the mark in the beverage field in 1980, 1981, 1983 and 1984" but cites no evidence relating to Karp (the owner of the mark) prior to September 1983).

appeals would have reached a different result in this case.[4]

3. Respondent's arguments to dissuade this Court from reviewing the bad faith issue are similarly based on re-writing the Seventh Circuit opinion and ignoring conflicting precedents. In respondent's view, bad faith is merely a question of fact subject to review under a clearly erroneous standard. Br. in Opp. 10. But evidentiary facts must be assessed in accordance with rules of law and it is the rule of law for determining bad faith that the petition addresses. The Seventh Circuit found that bad faith could exist even where a defendant lacks any intent to trade on a plaintiff's good will and reputation and does not intend to cause confusion. As even the court below recognized, other courts of appeals have held that the correct "bad faith" standard under the Lanham Act requires an intent to appropriate the plaintiff's good will associated with the trademark. Pet. App. 31a-32a. That is the clear holding of *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400 (9th Cir. 1993), another conflicting case that respondent ignores.

Nor is there any merit to respondent's attempt to gloss over the conflict between the decision below and *W.W.W. Pharmaceutical Co. v. Gillette Co.*, 984 F.2d 567 (2d Cir. 1993). Comparison of the two cases reveals that the Seventh Circuit regarded as evidence of "bad faith" factors the Second Circuit cited as negating bad faith. Similarly ineffective is respondent's effort to downplay the fundamental conflict between the Seventh and Second Circuits on this issue by reference to *Nikon Inc. v. Ikon Corp.*, 1993 U.S. App. LEXIS 3245 (2d Cir. Feb. 25, 1993),

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[4] Indeed, the period of non-use by the mark owner was far shorter in *Hiland* than it was here.

issued subsequent to the filing of the petition. As the Second Circuit opinion makes clear, the defendant in *Nikon* had engaged in "passing off" by representing that it was a division of mark owner Nikon. *Id.* at *12. *Nikon* confirms that the split in the circuits on the legal standard for assessing bad faith in a trademark case is genuine and continues to affect a growing number of pending cases.

This split of authority has an undeniable practical impact on all companies that advertise products, as evidenced by respondent's attempt to contrast Quaker's conduct with that of Pet. In respondent's view, Pet sought to use THIRST-AID as the name of a product, "ran a trademark search, discovered the [respondent's] mark, [and] approached [respondent] . . . ." Br. in Opp. 7. But the facts found below that form the basis for the Seventh Circuit's judgment, show that Quaker satisfied all the key components respondent lauds on Pet's part. Quaker (which did not seek to use THIRST-AID as a product name, but as part of an advertising slogan, and which had obtained an opinion of counsel that its proposed slogan was descriptive (Pet. App. 4a, 34a)) ran a trademark search, discovered the **Karp** mark, approached **Karp** and learned **Karp** was not using the name on any retail product. Respondent, of course, was not then the owner of the mark. Having contacted the owner -- **Karp** -- no rule of law should require Quaker also to contact respondent whose name, the court of appeals found, "does not appear on any of the federal registrations that the search turned up, nor does it appear anywhere in conjunction with Karp's name." *Id.* at 34a n.18. The lack of any principled basis for discerning good faith from bad faith is a critical flaw in the decision below that creates chaotic uncertainty for the lower courts and for all commercial decisionmakers.

4. Respondent's opposition to certiorari on the question whether the Lanham Act permits any award of profits where plaintiff suffered no damages and the defendant did not engage in fraud, palming off or trading on plaintiff's good will is based on a fundamental distortion of the decision below. Directly contradicting the record, respondent states "there can be no dispute that Sands suffered actual harm." Br. in Opp. 14. But the district court expressly rejected all of respondent's claims for "actual damages," found no "actual harm" (Pet. App. 105a, 106a), and dismissed each of respondent's claims for compensatory damages. *Id.* at 105a-109a. Respondent filed no cross-appeal. Accordingly, the court of appeals did not consider, much less overturn, the district court's finding of no damage or harm to respondent (indeed, in the absence of a cross-appeal the court of appeals lacked jurisdiction to do so).

It is respondent that must re-write the record and the decision below to avoid the inevitable conclusion that a conflict exists among the circuits on the remedies available under the Lanham Act. In cases respondent ignores, other courts of appeals have rejected claims for an accounting of profits in the absence of actual damages, fraud, palming off, or intent to exploit the mark owner's good will. Respondent has no response to the following conflicting cases cited in the petition: *Caesar's World, Inc. v. Venus Lounge, Inc.*, 520 F.2d 269 (3d Cir. 1975) (denying accounting absent proof of actual damage or actual profits due to infringement); *Foxtrap, Inc. v. Foxtrap, Inc.*, 671 F.2d 636 (D.C. Cir. 1982) (denying accounting absent showing of fraud or palming off); *Frisch's Restaurants, Inc. v. Elby's Big Boy*, 849 F.2d 1012 (6th Cir. 1988) (denying accounting absent showing of trading on goodwill or profits due to infringement); *Lindy*

Pen Co. v. Bic Pen Corp., 982 F.2d 1400 (9th Cir. 1993) (profits proper where infringement is willfully calculated to exploit the advantage of an established mark); *Quabaug Rubber co. v. Fabiano Shoe Co.*, 567 F.2d 154 (1st Cir. 1977) (denying accounting because no showing of diverted sales or financial loss); *Raxton Corp. v. Anania Assocs.*, 668 F.2d 622 (1st Cir. 1982) (denying accounting because plaintiff and defendant do not compete and no actual damages); *Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l, Inc.*, 951 F.2d 684 (5th Cir. 1992) (no accounting in absence of palming off). Moreover, respondent totally misreads *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968-69 (D.C. Cir. 1990), as having "left open" precisely the question that court resolved in conflict with the decision below.

Finally, there is no merit to respondent's contention that the Court must await a final quantification of the profits to be awarded in this case before considering the third question presented in the petition. The question presented, and the issue on which the courts of appeals are divided (*see* Pet. 20-26), is whether the Lanham Act permits an accounting of profits in the absence of actual harm, fraud, palming off or appropriation of goodwill. That issue does not turn on the quantum of profits awarded in a particular case; the issue remains the same whether the district court recalculates the award of profits at $20,000 or $2 million. The legal issue presented is one which, if decided in conformity with the decisions of this Court and most courts of appeals, will terminate this case in its entirety. The conflict, which the Seventh Circuit acknowledged, does not require further ventilation in the circuits to warrant this Court's review.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

William E. Wallace III
Counsel of Record
Jerrold J. Ganzfried
Joseph P. Lavelle
HOWREY & SIMON
1299 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 783-0800

Attorneys for Petitioner
The Quaker Oats Company

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